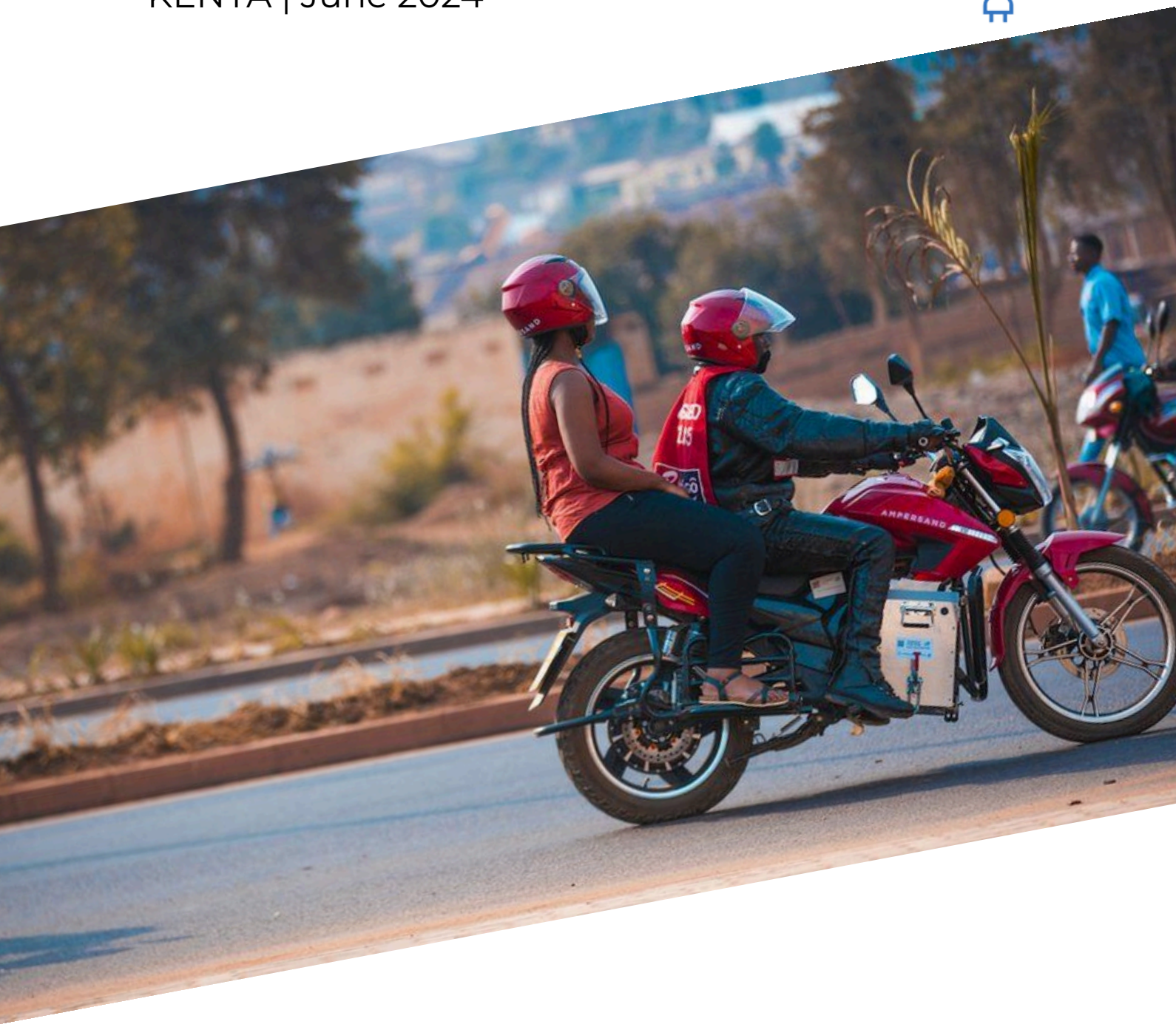
OPINION

Open Letter to Support E-Mobility

KENYA | June 2024



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AFRICA E-MOBILITY ALLIANCE

In Summary

The Africa E-Mobility Alliance expresses its deep concern regarding the proposed changes in the Finance Bill of 2024. The Kenyan electric vehicle (EV) sector is currently booming, seeing a 600% year-on-year growth rate in EV registrations between 2022 and 2023.[1] Strong government policy has facilitated these accomplishments, and enabled approximately 60 e-mobility companies and over $100 million in investment to be domiciled.

However, the new Finance Bill for 2024 is poised to undo many effective policies. The proposed removal of key incentives for electric vehicles (EVs) and the introduction of new taxes could divert investments to other countries with more aggressive e-mobility policies. With an electricity grid powered by over 85% renewable energy and significant off-peak capacity, Kenya stands to benefit immensely from e-mobility.

Moreover, raising barriers to e-mobility would expose the more than 80% of Kenyans who walk or use public transport to increased air pollution, negating the economic, social, and environmental gains achieved thus far. We urge the government to reconsider these revisions to maintain Kenya's momentum towards a greener, healthier, and more economically stable future.

[1] Richard Kamau, "'Tusonge na EVs': EPRA Urges Kenyans to Embrace EVs to Reduce Toxic Emissions," Nairobi Wire, June 4, 2024, https://nairobiwire.com/2024/06/tusonge-na-evs-epra-urges-kenyans-to-embrace-evs-to-reduce-toxic-emissions.html

Pre-2024 Governmental Policy

Vehicle electrification in Kenya is, to date, heavily dependent on government support. Government commitment to electrification was codified under the 2022 Bottom-Up Economic Transformation Agenda, which included plans for 700 urban electric charging stations and a further 300 alongside major roads.[2] Government support was further expanded in the 2024 Draft National E-Mobility Policy and a variety of other uncodified promises and plans in the last year.

The Kenyan Energy & Petroleum Regulatory Authority (EPRA) estimates that 475 electric vehicles were registered in 2022 and 2,694 in 2023, for a total of 3,753 electric vehicles registered in the country as a whole.[3] Consisting of 1.6% of the total registered Kenyan vehicle fleet, these are largely 2- and 3-wheeled vehicles.[4] The vehicles are almost entirely imports, and the Kenyan government has expressed interest in developing its own domestic EV manufacturing industry; aspects of the Finance Bill 2024 are clearly designed to accomplish this last goal.

EPRA cites concerns over cost, energy access, and lack of necessary infrastructure as major impediments to EV uptake in Kenya.[5] To partially address these, in 2023 EPRA developed a comprehensive set of Electric Vehicle and Battery Swapping Infrastructure Guidelines to provide an overall framework capable of facilitating EV uptake.[6] The Guidelines include standards and inspection requirements for private vehicle charging stations, both of plug-in and battery swapping styles, with a specific focus on making it economically viable for the private sector to construct and operate charging stations.[7]

The Kenyan government has also previously set clear policy outside of the auspices of EPRA. Under the Finance Bill 2023 electric bikes, buses, and motorcycles, as well as batteries, were made exempt from VAT, with EV motorcycles also free from import

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[2] Energy & Petroleum Regulatory Authority, "Electric Vehicle Charging and Battery Swapping Infrastructure Guidelines," (Report, Nairobi, Kenya, 2023), https://www.epra.go.ke/wp-content/uploads/2023/09/EPRA-E-Mobility-Guidelines.pdf

[3] Brian Ambani, "State mulls cheaper power for electric cars charging," Nation, June 4, 2024, https://nation.africa/kenya/business/state-mulls-cheaper-power-for-electric-cars-charging-4646166

[4] Kamau, "'Tusonge na EVs'," Nairobi Wire, June 4, 2024, https://nairobiwire.com/2024/06/tusonge-na-evs-epra-urges-kenyans-to-embrace-evs-to-reduce-toxic-emissions.html

[5] Energy & Petroleum Regulatory Authority, "Electric Vehicle Charging and Battery Swapping Infrastructure Guidelines," (Report, Nairobi, Kenya, 2023), https://www.epra.go.ke/wp-content/uploads/2023/09/EPRA-E-Mobility-Guidelines.pdf

[6] Energy & Petroleum Regulatory Authority, "Electric Vehicle Charging and Battery Swapping Infrastructure Guidelines," (Report, Nairobi, Kenya, 2023), https://www.epra.go.ke/wp-content/uploads/2023/09/EPRA-E-Mobility-Guidelines.pdf

[7] Energy & Petroleum Regulatory Authority, "Electric Vehicle Charging and Battery Swapping Infrastructure Guidelines," (Report, Nairobi, Kenya, 2023), https://www.epra.go.ke/wp-content/uploads/2023/09/EPRA-E-Mobility-Guidelines.pdf

duties.[8] Both of these policies likely supercharged the growth in the EV market in the last year by reducing costs to a point where electric vehicles were viable options for more Kenyans.

Kenya's electricity grid consists of over 85% renewable energy sources, with the potential to grow further over the coming years.[9] Even as electricity demand increases from growing EV penetration, carbon emissions from electricity generation are unlikely to seriously increase given Kenya's heavy and expanding reliance on fossil-free sources of power.

The Draft National E-Mobility Policy

The Kenyan government issued a Draft National E-Mobility Policy at the end of March, 2024. The comprehensive plan lays out what are the main goals of accomplishing vehicle electrification in Kenya.

Key components of the National E-Mobility Policy include:

- Establishing an Electric Mobility steering committee
- Assessing total EV demand
- Setting timelines after which all new vehicles in different sectors must be fully electrified, in accordance with Kenya's international climate commitments
- Developing standardised regulatory, safety, and use frameworks for electric vehicles and charging stations
- Promoting the electrification of public transport through financing and insurance
- Promoting domestic EV manufacturing through local content requirements and economic incentives
- Planning for battery recycling and safe disposal
- Developing regulatory frameworks for EV financing
- Promoting domestic education around electric vehicles to encourage uptake and ensure in-country engineering talent
- Adjusting tax and incentive bonuses to promote and facilitate EV uptake among all classes of Kenyans while building appropriate venues to uphold the Road Maintenance Fuel Levy Fund

[8] "Highlights of the Finance Act 2023," Kenya Revenue Authority, June 8, 2024, https://kra.go.ke/popular-links/key-highlights-of-the-finance-act-2023

[9] "Electric Mobility", Energy & Petroleum Regulatory Authority, June 8, 2024, https://renewableenergy.go.ke/electric-mobility/

Other 2024 EV Policy Initiatives

Alongside the overarching E-Mobility Policy, Kenya's government has launched several other programs designed to promote vehicle electrification. The government of Kenya kicked off a wide-ranging public awareness campaign, "Tusonge na EVs" ("Let's Move with EVs"), under the auspices of the EPRA to encourage broader uptake of electric vehicles at the beginning of June, 2024. The government seeks to have 5% of new vehicles be electric by next year in alignment with overall decarbonization plans.[10]

President William Ruto proposed, at the end of May 2024, the removal of all taxes on the first 100,000 domestically-manufactured electric vehicles,[11] and the government also has proposed adjusting the current "e-mobility tariff" that includes cheaper electricity (16 KES/kWh[12]) for electric vehicle charging up to a cap of 15,000 kWh each month and normal rates after that limit. The cap is designed to preserve the financial well-being of Kenya Power; however, EPRA head Daniel Kiptoo has proposed raising the cap and possibly abolishing it completely after 2026, depending on EV uptake.

In April 2024 Kenya Power launched a KES 258 million project to encourage uptake of electric vehicles, including publicly-accessible charging stations at Kenya Power's headquarters building in Nairobi, another nine charging stations at other Kenya Power offices across the country, and ten charging stations each in 2025 and 2026.[13] The utility has also deployed two EV cars for company use and plans to purchase another nine, plus 25 electric motorcycles, by the end of 2024, using the information gathered from all these projects to assess next steps in supporting vehicle electrification.[14]

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[10] Kamau, "'Tusonge na EVs'," Nairobi Wire, June 4, 2024, https://nairobiwire.com/2024/06/tusonge-na-evs-epra-urges-kenyans-to-embrace-evs-to-reduce-toxic-emissions.html

[11] Editor Wakesho, "Ruto Removes Taxes on First 100,000 Electric Cars Assembled in Kenya," ElectricBee, May 30, 2024, https://www.electricbee.co/ruto-removes-taxes-on-first-100-000-electric-cars-assembled-in-kenya/

[12] Kamau, "'Tusonge na EVs'," Nairobi Wire, June 4, 2024, https://nairobiwire.com/2024/06/tusonge-na-evs-epra-urges-kenyans-to-embrace-evs-to-reduce-toxic-emissions.html

[13] Richard Kamau, "Kenya Power's Ksh258M Plan to Make You Buy Electric Vehicles," Nairobi Wire, April 23, 2024, https://nairobiwire.com/2024/04/kenya-powers-ksh258m-plan-to-drive-adoption-of-electric-vehicles.html

[14] Kamau, "Kenya Power's Ksh258M Plan to Make You Buy Electric Vehicles," Nairobi Wire, April 23, 2024, https://nairobiwire.com/2024/04/kenya-powers-ksh258m-plan-to-drive-adoption-of-electric-vehicles.html

The Finance Bill of 2024

The government's clear signalling in support of increased vehicle electrification, and its set of policies promulgated in the first half of 2024, are in sharp contrast to planned governmental policies seen in the Finance Bill of 2024.

The finance bill includes a removal of VAT breaks currently enjoyed by electric bicycles, motorcycles, lithium batteries, and electric buses.[15] This will likely lead to increased unit prices across the various vehicle segments, essentially pricing them out of competition with their fossil-fuel equivalents.[16]

The bill also includes provisions to add an "eco-levy", essentially a tax on certain electronic and other goods designed to promote their recycling or at least proper disposal. This has been previously used in other countries, including Ghana, to success. Batteries are included in this list, indicating possible increase in expense for electric vehicles at the end of their lifespan, which might be passed on to the consumer or discourage adoption.[17] They will also impact entrepreneurs running battery-swapping stations by increasing disposal costs at the end of batteries' lifespans.[18]

Motorcycles, including electric motorcycles, are also to be included under the new tariff schedule replacing the 2023-introduced Export and Investment Promotion Levy unless they are locally assembled. This indicates government support for domestic manufacturing.[19] However, it will likely suppress entry into the EV motorcycle market

[15] Bowman's, "Analysis of the Finance Bill, 2024," (Report, Nairobi, Kenya, 2023), https://bowmanslaw.com/wp-content/uploads/2024/05/Analysis-of-Finance-Bill-2024-13-May-2024_-002.pdf

[16] George Song'e, "Proposed taxes in new Finance Bill will stagnate growth of e-mobility," Business Daily, May 27, 2024, https://www.businessdailyafrica.com/bd/opinion-analysis/columnists/proposed-taxes-in-new-finance-bill-will-stagnate-e-mobility-4637664

[17] Bowman's, "Analysis of the Finance Bill, 2024," (Report, Nairobi, Kenya, 2023), https://bowmanslaw.com/wp-content/uploads/2024/05/Analysis-of-Finance-Bill-2024-13-May-2024_-002.pdf ; EY, "Kenya proposes tax changes under the Finance Bill, 2024," EY Tax News Update Global Edition, May 21, 2024, https://globaltaxnews.ey.com/news/2024-1032-kenya-proposes-tax-changes-under-the-finance-bill-2024

[18] Song'e, "Proposed taxes in new Finance Bill will stagnate growth of e-mobility," Business Daily, May 27, 2024, https://www.businessdailyafrica.com/bd/opinion-analysis/columnists/proposed-taxes-in-new-finance-bill-will-stagnate-e-mobility-4637664

[19] EY, "Kenya proposes tax changes under the Finance Bill, 2024," EY Tax News Update Global Edition, May 21, 2024, https://globaltaxnews.ey.com/news/2024-1032-kenya-proposes-tax-changes-under-the-finance-bill-2024

by players who would prefer to gauge the market before jumping into it, curtailing the potential for foreign direct investment.[20]

Public and business opposition to these moves has already grown.[21] The Electric Mobility Association of Kenya has begun lobbying in opposition, although the final outcome is not yet clear. Additionally, the assessment of industry insiders is that exempting EV parts completely from import duties - or at least implementing a blanket 50% reduction in costs - will be one of the most impactful ways to promote domestic manufacturing.

Existing rules, where cost breaks are only available if parts are not domestically produced in line with a poorly-implemented target of 70% imported parts, 30% domestic for manufacturers, cause serious problems for ensuring proper quality and low cost of domestic vehicles; removing these will provide a way for necessary manufacturing, engineering, and assembly knowledge to gain wide traction. Once the Kenyan ecosystem is such that there are enough experts in these fields, it will then be possible to develop a full domestic manufacturing industry. However, for some sectors, such as battery manufacturing, interviewed experts expect that to take at least 10 to 15 years to achieve proper quality production.

[20] Song'e, "Proposed taxes in new Finance Bill will stagnate growth of e-mobility," Business Daily, May 27, 2024, https://www.businessdailyafrica.com/bd/opinion-analysis/columnists/proposed-taxes-in-new-finance-bill-will-stagnate-e-mobility-4637664

[21] Yunus Kemp, "Kenya: E-mobility companies want govt to back down on proposed tax for EVs," ESIN Africa, June 5, 2024, https://www.esi-africa.com/finance-and-policy/kenya-e-mobility-companies-want-govt-to-back-down-on-proposed-tax-for-evs/

Macroeconomics of the Finance Bill 2024 and Implications for E-Mobility

Kenya currently carries a great deal of national debt. Efforts to combat this by raising revenue make it difficult to ease tax policy, including that relating to electric vehicles. The new Finance Bill 2024 indicates that Kenya, despite its efforts to strive for a more equitable e-mobility market, is now turning back to austerity measures, likely in part to address the debt, that will also prevent lower and middle-income citizens from accessing electric vehicles.

Low- and middle-income buyers are furthermore likely to find credit inaccessible with astronomical interest rates, given the Central Bank raised the rate to the highest in 12 years in 2024 from 12.5% to 13%,[22] making commercial lending over 15% to lower and middle-income citizens.[23]

Overall economic conditions are, however, somewhat brighter. The economy had tremendous growth with a 5.6% in GDP growth in 2023, 0.7 percentage points higher than in 2022,[24] and a partial buy-back of the Eurobond in February 2024, which balanced liquidity for the year.[25] With a drop in exports, the Kenyan markets seek a promising year for agriculture, due to adequate rainfall, hoping to increase the rate of export.

Furthermore, the focus on austerity may have limited opportunity for EV uptake. Kenya seeks to minimise the deficit and public borrowing, with the hope of freeing up more government expenditure that could potentially lead to more local procurement, thus allowing the e-mobility space to work around infrastructure, in the short run, and leaving room for tax incentives in the medium to long run for a much more feasible transition for Kenya.

Finally, if we consider President Ruto's regime to be Keynesian with his promising support of e-mobility and renewable energy, it is safe to say that government spending will increase which should be able to create an equilibrium between decrease in spending, and increasing output. On the other hand, others may argue that while wages remain sticky due to austerity and overall unemployment high, the Kenyan economy will suffer.

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[22] "Central Bank Rate", Central Bank of Kenya, June 9, 2024, https://www.centralbank.go.ke/rates/central-bank-rate/

[23] "Commercial Banks Weighted Average Rates", Central Bank of Kenya, June 9, 2024, https://www.centralbank.go.ke/commercial-banks-weighted-average-rates/

[24] Reuters, "Kenya central bank hols benchmark rate, says inflation is stable," Reuters, June 6, 2024, https://www.reuters.com/markets/rates-bonds/kenya-central-bank-holds-benchmark-rate-says-inflation-is-stable-2024-06-05/

[25] Reuters, "Kenya to buy back over $1.4 bln of bond that had unnerved investors," Reuters, February 15, 2024, https://www.reuters.com/world/africa/kenya-buy-back-over-14-bln-bond-that-had-unnerved-investors-2024-02-15/

To Accelerate or Not?

Although it may seem obvious, the Kenyan government must adopt a clear EV policy. The loss of financial support threatens to undo the great progress already underway in the electrification of transport, especially for mass and shared transport options in buses and motorcycles, the daily driver for most urban Kenyans. This in turn would not only imperil Kenya's ability to meet its climate commitments but paradoxically set back manufacturing goals and worsen public health, as reduced use of electric vehicles would lead to a continued reliance on diesel- or petrol-powered vehicles that produce harmful particulates and other pollution.

President. Ruto's government is clearly committed to transport decarbonization and to establishing a firm domestic manufacturing base for electric vehicles in Kenya itself. The proposed tariff and VAT changes are designed to accomplish the latter but will likely slow down overall development of a knowledge and manufacturing base capable of sustainably and successfully producing domestic electric vehicles. Furthermore, removing the VAT and tariff duty exemptions will discourage the uptake of electric vehicles, reducing the demand for domestic electric vehicles.

Apart from continuing the VAT and tariff exemptions, President Ruto's plan for tax breaks to promote additional domestic EV manufacturing are clever and may well be worth expanding should they prove to work. The efforts of the EPRA and Kenya Power to build out frameworks for the infrastructure necessary to facilitate vehicle electrification, especially to include and encourage entrepreneurs in this process, are very strong and are clearly in alignment with the overall electrification work underway. Finally, the Draft National E-Mobility Policy commits the government to electrification and provides a roadmap for accomplishing it.

Kenya need not to throw the young e-mobility baby out with the bathwater of austerity. Electric mobility is an opportunity to develop energy resilience from consuming locally generated renewable electricity, promote a cleaner environment from reduced emissions, and to demonstrate leadership in creating new and sustainable jobs of the future, today.